Lessons for Effective Government IT Outsourcing: Education and Immigration in New Zealand

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ABSTRACT

Information technology (IT) tends to be viewed as ancillary to core government functions. Consequently, IT is often outsourced to the private sector. Unfortunately, there is a long line of failed outsourced projects. This article uses two New Zealand case studies, the particularly public failure of the recent school payroll system and the successful introduction of electronic immigration processing, to examine how the design and governance of outsourced government IT projects could be improved. It concludes that an awareness of historic trends is important for project success, that governments need to be more active in combating market based transaction costs and that contract management becomes a core government competency when projects are outsourced. It also argues that better change management and cognisance of design-reality gaps would positively impact the outcomes of future projects.

KEYWORDS

Contract Management, Design and Implementation, Government, Information Technology, New Zealand, Outsourcing, Path Dependency, Transaction Costs

1. INTRODUCTION

They’ve been overpaid, underpaid and not paid at all – now one teacher has been paid for being in two places at one time. (O’Callaghan, 2012)

That was the situation in November 2012. Three months earlier the New Zealand (NZ) Ministry of Education’s (the Ministry) new, outsourced school payroll systems – Novopay – went live. Novopay was, unfortunately, an immediate disaster. Payment errors occurred and the customer service function was underprepared and overwhelmed (Jack & Wevers, 2013). The Post Primary Teachers Association even took the Ministry to court for breaching its statutory obligations (Barback, 2013). Performance was so bad that eventually Ministerial responsibility was assigned to resolve the matter and the Ministry and Talent2 (the private provider) parted ways (Joyce, 2014; Key, 2013).

Information technology (IT) promises to provide governments with cost and time savings and with better service coordination and information management. It should also allow public services to be tailored to the needs of citizens (Oostveen, 2008). Government IT is often contracted out to

DOI: 10.4018/IJEGR.2017070105
the private sector. Contracting out, or outsourcing, is a core New Public Management principle used to introduce competition into the delivery of public services. Competition should, in theory, spur quality improvements and cost reductions. Additionally, outsourcing ancillary functions is said to allow government to focus on “core” public tasks. The outsourcing of IT systems has historically been justified by their being ancillary to core public functions (Dunleavy, 1994; Dunleavy, Margetts, Bastow, & Tinkler, 2006). Despite all this promise, the size, number and persistence of government IT failures are well documented (Controller and Auditor General, 2013; Gauld & Goldfinch, 2006; Oostveen, 2008; Small, 2000).

This paper examines how the design and governance of outsourced government IT projects might be improved. Three principal matters are tackled:

1. Path dependence in public services and the need to be realistic about what history means for service delivery and contracting out;
2. The importance of minimising transaction costs where the market is used to provide public services (or at least some public functions); and
3. The changing role of government – from producer to manager – when service functions are outsourced.

This paper adds to the body of public sector IT case studies by unpicking Novopay’s failure in light of these matters. However, it also goes a step further and uses a comparative case study to place success alongside failure. SmartGate, the privately provided electronic passport control system used by the New Zealand Customs Agency (NZ Customs), is a recent example of a particularly successful outsourced government IT endeavour (Controller and Auditor-General of New Zealand, 2012). It provides a positive comparison throughout this paper. The intention is that by using comparative case studies and highlighting good practice (as well as bad) this paper will contribute to the existing literature in a constructive manner. It concludes by distilling five core principles that could contribute to the effectiveness of outsourced government IT projects.

2. THE CASE STUDIES

2.1. Novopay and the Schools Payroll

Novopay was a fully outsourced (i.e. software and staff) payroll system to be provided by the private company Talent2. It replaced the (also fully outsourced) Datapay system. The business case for Novopay was that Datapay was aging technology that posed too great a technology risk for the Ministry and that it was no longer fit for purpose. It was claimed that Novopay would offer greater functionality, a better user interface and more useful information about the schools payroll. Novopay was also a fully web based system, compared to the more manual Datapay system. After putting forward its initial business case in the early 2000s, the Ministry contracted with Talent2 (in 2008), initially for the provision of software only. However, encouraged by predicted savings of NZ$4.6 million per year, the Ministry moved to full outsourcing. The budget for Novopay was NZ$182.5 million for 10 years of service (Jack & Wevers, 2013).

The schools payroll is NZ’s largest payroll – it distributes around NZ$4.6 billion annually to 120,000 staff. It is also a complicated payroll. The Ministry is responsible for providing payroll services, but individual schools (around 2,500 of them) are the employers for payroll purposes. Schools differ in terms of their size, their number and speciality of payroll administrators and the IT systems that they use. A combination of collective and individual employment agreements generate
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